

Session 2: Challenges and Risks to Development in Asia

Parallel Group 2B: Topic Paper 3

Business Action in Asia: Building Partnerships for Sustained Economic Development

London, 1-2 February 2006

Report and Recommendations



“BUSINESS ACTION IN ASIA: BUILDING PARTNERSHIPS FOR SUSTAINED ECONOMIC DEVELOPMENT” LONDON, 1-2 FEBRUARY 2006

REPORT AND RECOMMENDATIONS

SUMMARY AND RECOMMENDATIONS

This report on the “Business Action in Asia” conference held in London on 1-2 February 2006, contains the summary and recommendations of the conference for consideration by those attending “Asia 2015” on 6-7 March 2006. The event, organised by the Commonwealth Business Council (CBC) with support from the Department for International Development (DfID) UK, involved 225 participants from 21 countries drawn mainly from business. They were addressed by over 40 speakers, including 5 Government Ministers, 2 High Commissioners and the Secretary-General of UNCTAD, together with many leading business people.

The objective of the event was to work towards “Building Partnerships for Sustained Economic Development”, and in line with that aim the conference identified actions needed to sustain Asia’s remarkable growth, by Governments and business working wherever possible together. The report begins with a summary highlighting the main areas for action, followed by a fuller account of the priorities identified, conclusions, and action points.

(1) Business Engagement for Sustainable Development

The importance of business engagement and bringing its skills and resources to support economic growth and sustainable development in Asia was emphasised. There is a need for practical mechanisms for sharing experience within Asia and internationally, drawing on best practice and existing centres/networks of activity. To this end, it was recommended to establish a Business Asia Network for Sustainable Development to carry forward a programme of action on:

- networking and sharing of information, knowledge and experience;
- dialogue between business and government on key policy issues arising from globalisation and economic integration with the global economy;

- leveraging relationships between large and small companies;
- leveraging relationships between business and community organisations;
- identifying and disseminating examples of good practice and partnerships;
- focused action programmes in the areas of strengthening the investment climate, infrastructure development, support for SMEs, financial services as products for the poor.

Recommendation 1: A Business Asia Network for Sustainable Development should be set up to share information and experience and carry forward an action programme in the key areas of strengthening the investment climate, infrastructure development, support for SMEs, and financial services as products for the poor.

(2) Sustaining growth and attracting investment

Economic growth has removed hundreds of millions of people in Asia from abject poverty in the last three decades. The speed and extent of recent growth has been astonishing, but we should not take for granted that it will be self-sustaining. Actions are needed both by Government and business to carry progress forward and to bring the benefits of progress to the poorest regions and individuals. Growth will not be sustainable unless it is inclusive.

Such sustained growth requires enhanced domestic and foreign investment. The private sector looks to Government to create a good investment climate. The essential conditions for business are: good governance; a steady direction of policy; investment in infrastructure; a competitive market environment supported by appropriate competition policy regimes; a transparent and effective regulatory framework; zero tolerance of corruption. The strengthening of the investment climate in many countries can benefit from attention to prioritisation and sequencing of reforms, a stronger focus on implementation, and enhanced public-private dialogue on key issues in investment climate reform.

Recommendation 2: Governments should continue economic reforms aimed at sustainable growth, job and wealth creation and adopt policies to promote inclusiveness, private-public partnerships and wider access to low cost products and services for the poor.

Recommendation 3: In order to enable the private sector to play a full role in economic growth, the investment climate in Asian countries should be strengthened to reduce the cost of doing business, and create a competitive market environment supported by transparent and effective regulation and zero tolerance of corruption.

(3) Trade

Global trade is expanding fast, affecting people in all parts of the world and at all levels. Trade within Asia is growing at nearly three times the global rate. Globalisation, economic liberalisation and more open markets are bringing visible benefits to Asia. Within Asia, regional and bilateral trade agreements are creating new relationships and drawing the countries of the region closer together, with prospects

of gain through both sharper competitiveness and closer harmonization. But developing countries in Asia as elsewhere see prospects of great gains from the new round of liberalisation at world level which the Doha Development Round could bring, provided its results do reflect the interests of developing countries, including the poor. More capacity-building is still needed for developing countries to take advantage of the benefits of trade liberalisation.

Recommendation 4: Given the great gains and prospects through trade liberalisation in Asia, Governments should continue trade liberalisation reforms, build stronger trade partnerships between Asian countries, and work for a conclusion of the Doha negotiations in 2006 on terms that give weight to the interests of developing and least developed countries. More capacity building is still needed.

(4) Partnerships for delivery of financial services as products for the poor

Provision of a variety of micro-finance products to the poorest is spreading in Asia, with innovative work being done in partnership between commercial banks and micro-finance institutions. The key challenge is how to scale up the level of services and develop a wider range of products tailored to meet the needs of the poor, including credit, savings and insurance. Access to these products will be essential to bring growth and social inclusion for rural populations and the poor. It was recognised that financial services can be provided efficiently to the poor on a commercial basis, and provision of low cost products will only be possible through application of technology. To be successful and attract more private capital and know-how, the micro-finance sector needs strong and enabling regulatory support from Governments and sharing of best practice. For its part, the private sector can leverage technology with innovative solutions to lower transaction costs and provide a wider and affordable range of services. Global banks can assist by arranging access to capital markets at favourable rates. Centres for research can help to harness and share experience in Asia.

Recommendation 5: Governments should take steps to encourage the growth of micro-finance institutions on a commercial basis involving a range of products including credit, savings and insurance, and support them with appropriate regulatory backing. The private sector should apply its expertise to leverage technology for low cost services and products for the poor.

(5) Partnerships for SME development

Small and medium enterprises (SMEs) play a crucial role in the overall development of economies in Asia, accounting for 30-40% of GDP in most countries. Despite this importance, SMEs are vulnerable to the effects of rapid globalisation and face significant challenges for survival and growth. Access to finance and the burden of regulation are key constraints. Measures to support development of SMEs should include establishment of clusters and incubator facilities to stimulate broader local economic development as well as mechanisms to support women's entrepreneurship. The private sector can support development through larger companies involving SMEs in supply chains to provide access to markets, upgraded technology and improved management practices. This can not only promote diversification of the

manufacturing base and accelerate the ability of local suppliers to export high value goods and services, but also help large companies to keep their costs down. Benefits run both ways.

Recommendation 6: Given the crucial role of SMEs in economic development in Asia, accounting for about 40% of GDP in most countries, Governments should adopt policy measures to support SMEs, increase their access to finance, to create an appropriate regulatory framework that does not overburden small businesses, and to create and maintain a competitive market environment. The private sector for its part should create more partnerships between large and small enterprises.

(6) Partnerships for Delivery of Infrastructure

Creating modern infrastructure in developing countries across Asia is a vast operation, calling for funds estimated at \$1 trillion between now and 2010. In order to meet these requirements, it is recognised that the private sector will have to play an enhanced role. As regards physical infrastructure, the major works of creating road, sea and air transport and energy networks, the private sector has an essential role in providing finance and delivery skills.

As regards the infrastructure of social services, in the areas of health, education, water and sanitation, recent experience shows that the private sector can be given a larger role than has been common up till now, and can bring in fresh constructive ideas as well as finance and efficiency. We urge Governments to open up to new forms of partnership in service providing, through better understanding private sector modes of operation. This is not about privatisation, but about models whereby risk and reward can be shared, giving a greater number of citizens access to higher-quality services.

Recommendation 7: In order to develop infrastructure and provide wider access to rural populations and the poor, Governments should take steps to facilitate greater private sector involvement through innovative private-public partnerships and supportive legal and operating frameworks.

BUSINESS ACTION IN ASIA: PRIORITIES AND AREAS FOR ACTION

The two-day conference was attended by 225 participants from 14 countries of Asia (both members and non-members of the Commonwealth), 6 countries of Europe (including the UK) and Canada. A large majority came from the business community, others from the public service, NGOs and academic institutions. Participants warmly appreciated the wide range and high quality of speakers who addressed them, and expressed thanks to DfID and CBC for bringing about the event.

Asia makes its mark on the Twenty-first century

The present speed of economic advance in Asia is dramatic. In everyday commentary this is often spoken of as if it was all about China and India, however it is essential to keep in mind that 'Asia' includes other countries with, between them, a wide range of economic performance and cultures. Two conclusions result: (i) there is no single 'Asian model for growth' or 'Asian way'; (ii) diversity can be a source of strength, and the diversity of economic development, language, religion, mix of central and regional government, income distribution and age profile found in Asia today should be viewed in that light.

The vision emerging was that the balance between Asia and the 'West' was shifting strongly in favour of Asia; that this had a new aspect but could also be seen as a return to the state of the world before 1800, when China and India were the largest global economies. Growth at recent rates, it was agreed, could not be sustained unless steps were taken to narrow today's inequalities of income. So 'inclusiveness', broadly defined, emerged early in the conference as a key strategic aim for business as well as for Governments. For Governments as a matter of social justice; for business as a matter in part of profit-making, since the people who are poor today can be a source of business profits tomorrow, as long as they share in the overall growth in prosperity.

One other over-arching theme was the need for good governance - in Government and in business. In Government, the essentials were seen as an impartial legal system, a stable and credible public (civil) service, transparent policies attuned to business, and the equitable distribution of wealth. Good governance in business was defined in terms of absence of corruption, integrity of management, engagement with local communities, respect for the environment; and care for staff health and safety, and active development of their skills: Corporate Social Responsibility, in the broadest sense.

RECOMMENDATIONS FOR ACTION

(1) Sustaining Growth and Attracting Investment

There was general agreement that Governments in the region were making good progress in moving towards policies conducive to growth, but a greater emphasis on effective implementation was urged: the vital necessity of putting policies into practice. Further changes in Government policy and in style of operation are required to bring the benefits of progress to the poorest regions and individuals: what has been termed 'PPP-P': Public/private Partnerships – for People. It is clear that social

exclusion is bad for business and the private sector can play a fuller role in improving access to low cost products and services for the poor.

Government action can help to sustain and propel the remarkable growth rates currently seen in Asia, with emphasis on shifting to a new level of public/private partnerships. – Government stepping back from operating within the economy, giving the private sector a larger range, and concentrating on creating the enabling framework.

In order to strengthen the investment climate in many countries, policies and regulations need to be reviewed through private-public dialogue and reformed where necessary. This has several components: a facilitative legal system, appropriate competition policy regimes, effective financial system, better regulation and public administration. From the private sector perspective, reducing the cost of doing business is a key priority.

Areas identified for action are:-

- 1.1 Effective forums for dialogue: Government must engage in dialogue with the private sector on a wide range of investment climate reform matters such as trade policy – trade agreements between countries of the region, and at WTO level; regulatory frameworks (including tax and competition policy); public administration;**
- 1.2 legal and regulatory systems need to cater for the areas of essential interest to business and reduce the associated costs to business: company law, contract enforcement; time taken to open and close down a business (which vary widely between countries at present); competition policy (to address restrictive practices both by dominant companies and by governments e.g. in Government procurement (which must be open and transparent));**
- 1.3 Finance. The particular problems for SMEs are well-known (and elaborated at 4.1 - 4.9 below). In addition, consumer credit is an area for action. Although credit levels are rising, they are way short of EU levels. One specific need is for some enabling and simplifying legislation to meet consumers' demand and expand consumers' rights;**
- 1.4 Education. Governments should ensure that their education systems provide vocational training, including training for technical occupations and business. The economy needs skilled workers, and there are strong social reasons for equipping young people to find work best matched to their talents;**
- 1.5 Governments should not neglect agriculture. Investment, public or private, in the agriculture industry can deliver social as well as economic returns, if directed at those production sectors which continue to be labour-intensive;**
- 1.6 the private sector, in return for being given a wider field for action, must take greater social responsibility, working in close dialogue with Government;**

1.7 Levels of participation by women in the formal economy are rising, but not fast enough, and further deliberate steps both by Government and the private sector are called for. As one speaker put it: “Women work wonders”.

(2) Trade reforms

Though trade policy and the rules of world trade were not the main focus of the conference, facilitative trade arrangements are a key element of a good investment climate. There was full agreement that the Doha negotiations were highly important for Asia’s future growth, and full agreement with the Secretary-General of UNCTAD in calling on Governments to work hard to bring the Doha Development Agenda to a conclusion this year, on terms that reflect the needs of poor developing countries. India’s Commerce Minister well summed up the dynamic of change, having talked of steps to more open markets and the rising interest of Asian companies in outward as well as inward investment, with the words “The trade winds are shifting”. One message to the international community and donor organisations is that there is still an acute need for capacity-building, especially in relation to trade (other capacity-building needs are noted elsewhere in this report).

The key points for action are:

2.1 Given the great gains and prospects through trade liberalisation in Asia, Governments should continue trade liberalisation reforms, build stronger trade partnerships between Asian countries, and work for a conclusion of the Doha negotiations in 2006 on terms that give weight to the interests of developing and least developed countries. More capacity building is still needed.

(3) Partnerships for Delivering Financial Services As Products for the Poor

It is important for poor people to obtain a wide variety of financial services and products such as credit, savings, transactions (payments, remittances) and insurance to protect themselves against shocks. There are some impressive stories of micro-finance services being provided with high rates of success, in terms of benefits to individual recipients and society, and reward to the service providers (e.g. extremely high rates of loan repayment; ‘micro-finance can pay’) – but along with this are some problem areas, such as still low rates of female borrowers in some countries.

Financial services for low-income households can be provided efficiently on a commercial basis, and provision of low cost products will only be possible through application of technology. Micro-finance also needs strong partnerships between beneficiaries, NGOs, banks and the private sector, as well as with governments, to increase its activities’ size, effectiveness and impact on reducing exclusion.

The following are recommendations for action to expand provision of micro-finance:-

3.1 enabling environment: Governments need to ensure a regulatory framework that underpins micro-finance institutions (MFI), so as to put them in a position to provide a full range of products and services, with some degree of

security; Governments also need to differentiate between banking regulation and MFI regulation.

- 3.2 leverage technology: the private sector needs to show how to apply technology innovatively for the delivery of micro-finance services involving very small amounts of money to large numbers of clients in remote areas with little or no modern infrastructure. Innovative approaches can include internet kiosk models and use of mobile telephony for delivery of services. Partnerships between large companies and local communities can help the process;**
- 3.3 develop new products: up till now products/services have related mainly to credit; but savings, investment and insurance need to be covered too; including for small-scale agriculture. Remittances from abroad are an important income stream for poor families, and services are needed to help cut costs of transmitting the often small sums involved;**
- 3.4 strengthen partnerships: the whole effort of building partnerships in this area needs more dialogue between global capital markets, local commercial banks and micro-finance institutions that have the crucial local knowledge of and relationship with the clients and their needs. Global banks can help provide access to capital markets at favourable rates.**
- 3.5 There is a strong demand for more active sharing of best practice within Asia – including through formal training. Bankers and MFIs need training to handle the needs of small customers.**

(4) Partnerships for SME Development

SMEs play a large part in every economy, developed as well as developing; make special contributions of flexibility and innovation; and add value to large companies operating away from their home area by entry of local SMEs into their supply chain to keep their costs down. SMEs find it harder than large companies, however, to obtain funds, and to deal with complex tax and regulatory systems which may serve to bar the establishment of new SMEs. Governments need to take this into account. The conference heard about some highly successful models in countries including Bangladesh and Sri Lanka, from which others could learn.

The following areas are recommended for action:-

- 4.1 hand-holding: Government training programmes can help;**
- 4.2 marketing: an area where SMEs are weak: training is needed but not necessarily from Government; industry associations may do this better;**
- 4.3 institutional frameworks: Governments must build SMEs into their country strategies, leaving industry federations and chambers of commerce to implement;**

- 4.4 finance/banking: banks and other institutions need to offer products tailored to SMEs;**
- 4.5 large companies: need to integrate SMEs into their supply chains, assist with R&D and training and management practices, and help SMEs to identify niche opportunities;**
- 4.6 international institutions (including World Bank and aid donors) have key contributions to make through their development programmes which can drive forward some of the changes identified – including support for the creation of a competitive market environment that encourages rather than discourages the start-up of new SMEs;**
- 4.7 women’s participation is not high enough and must be specifically built up;**
- 4.8 between countries, policies need to be harmonised to facilitate SME involvement in trading relationships, and new ideas shared;**
- 4.9 education: Governments must give more space to vocational and business training in their education systems.**

(5) Partnerships for Delivery of Infrastructure

The extent of infrastructure work in progress is vast, and yet there is need for much more. There are some clear differences between infrastructure in the form of physical construction (e.g. transport and energy networks) and infrastructure by way of social services (health, education, water and sanitation). Given the extensive needs, there is an important role for the private sector, and a need to enhance that role through private-public partnerships (PPP). The following are areas for action to facilitate private sector engagement.

Governments can do more than hitherto to attract and retain investment, by providing a framework of regulations and standards, and transparent systems for placing contracts, consistently applied. They need to raise public servants’ level of understanding of the private sector.

(a) Physical Infrastructure

5.1 There is much talk of capacity-building in relation to development. The public sector in most countries falls well short of understanding the needs of private sector operators, and the capacity of public servants in this respect badly needs to be built up. This is a pressing need. Among the issues not adequately understood are: risk management, long-term debt financing, mobilisation of domestic savings and capital markets, cost of preparing tenders;

5.2 Beyond this, we need intensive communication between public and private sectors on innovative partnership arrangements;

5.3 International participation can help to build an enabling framework for PPP, contributing to best practice on such matters as transparency; simplified

(international) tender procedures and qualifications; guidelines on operating environment;

5.4 For effective infrastructure development, a bottom-up approach is required, calling for training of the public sector on the particular circumstances and needs of the project.

(b) Services

A high priority should be placed on raising standards of education, since the supply of trained human resources is essential in all countries for maintaining the momentum of economic growth. It needs to be considered in what ways the private sector can contribute best, in relation to service providing, through financing and building installations such as schools and hospitals, or through operating installations constructed by the state. There are examples of success with both models. The essential need is for Government to enter into dialogue and build partnerships with the private sector.

Specific action recommended is:

5.5 Government should remove legal restrictions on private sector involvement, including any bar on charging user fees for the provision of services, and be open to devising appropriate regulatory frameworks for cooperation to attract private sector into working with the state on services like health, which have been seen as unprofitable up till now;

5.6 Education: a high priority sector where the private sector is likely to be interested in operating facilities built with state finance. Governments should be open to this;

5.7 Social services delivery in poor and remote areas is less rewarding because of higher operating costs in such areas and because individual consumption of services is too small to be profitable. Government should recognise the need to provide positive incentives for private sector engagement in poor areas, in return for quality of service that can be provided, and wider benefits to the economy;

5.8 NGOs as well as commercial companies can run effective delivery operations (the conference heard of some impressive examples) and their role should be accepted;

5.9 Given the impact which better transport can have in relieving poverty in rural areas, Government should be prepared to give some support to private sector operators willing to extend their operations from town to country.

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